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SENSITIVE

DEPARTMENT FOR SA/INS

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TAGS: [ECON](#) [ETRD](#) [ELAB](#) [ENRG](#) [PGOV](#) [CE](#)

SUBJECT: SRI LANKA: ELECTRICITY, FUEL STRIKES AVERTED
AFTER RESTRUCTURING PLANS PUT ON HOLD

REF: COLOMBO 512

SUMMARY

1. (SBU) Strikes threatened by unions at the state-owned Ceylon Petroleum Corporation (CPC) and Ceylon Electricity Board (CEB) were averted late March 28 after a Cabinet vote on restructuring the two state-owned enterprises (SOEs) was postponed. Cities across the island reported crippling traffic jams on March 28 as panicked motorists, fearing a gasoline shortage, formed massive lines at "petrol sheds" throughout the country. Labor unions dominated by the Janatha Vimukthi Peramuna (JVP), the Government's pro-Marxist coalition partner, had threatened island-wide shutdowns in both industries to protest the proposed restructuring moves. With the postponement of the crucial Cabinet vote, the JVP has clearly demonstrated its ability to influence-and perhaps derail-reforms. End Summary.

JVP STRIKE THREATS LEAVE RESTRUCTURING
PLANS OUT OF GAS, OUT OF JUICE

2. (U) Nationwide strikes threatened by JVP-dominated unions at the state-owned Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC) have forced the Government of Sri Lanka (GSL) to postpone a vital Cabinet vote, scheduled for March 28, on restructuring both enterprises. The unions called off the impending strikes late March 28 after the GSL announced the decision to defer the vote, pending the outcome of further "study" of the proposed measures. The fear of gasoline shortages posed by the threatened strike had sparked a surge of panic buying among motorists across the country, who queued for hours at "petrol sheds" and gas stations to fuel up before the impending strike.

3. (U) JVP union leaders had threatened the strikes to protest GSL restructuring plans. Among the measures under consideration was the GSL decision to sell one-third of its original shares in CPC. (Note: The GSL has already sold a third of its shares to the Indian Oil Company. End note.) The restructuring plans for CEB involve the unbundling of the unwieldy SOE to nine companies, including two generation companies, one transmission company and several distribution companies. Implementation of the two plans, aimed at reducing debts at the loss-making SOEs, are linked to Asian Development Bank (ADB) and JBIC program loans for the power sector. The plans had been under consideration for several years but were delayed due to the 2004 change in governments, as well as union and JVP resistance.

4. (U) The JVP political and union leadership, which have been spearheading the protest, misrepresent the proposed restructuring at CEB as an attempt at privatization--a concept that is anathema to the pro-Marxist party. This argument has obviously resonated with the membership of CEB's labor unions, about 65 percent of which are controlled by the JVP. Ranjan Jayalal, the JVP union leader at CEB, told us that his union is committed to opposing the measures, which he described as a carryover from the previous United National Party government.

THE ROCKY ROAD TO REFORM

5. (U) The CEB Engineers' Union (CEBU), which is apolitical, also supports the current JVP actions. The CEBU sees no benefit to the proposed restructuring process, suggesting instead that the GSL proceed with proposed coal and hydro plants to reduce costs. The

Secretary of the CEBU union, Athula Wanniarachchi, told

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the Embassy that even if the Government takes over the Rs 30 billion short-term debt at CEB, it would not solve CEB's problems as the utility runs significant operational losses. The CEB's unit cost is Rs 11.00 (11 US Cents) per unit, and the selling price is Rs 7.50 (7.5 US cents). According to the CEBU, although a 50 percent tariff hike is needed to break even, the GSL has instead has resorted to high-cost thermal power plants, leaving the CEB to run in constant high-cost mode and without sufficient baseload power for optimal capacity usage. Some senior managers contacted by the Embassy said the GSL's failure to have a "proper" dialogue about job security and ways of bringing the current power cost down have left room for the JVP to make political capital.

COMMENT

16. (SBU) In addition to agitation at CEB and CPC, the JVP is orchestrating or threatening to orchestrate strikes in five other vital sectors, including the postal system, education, and the medical technologists' union. In many ways, the GSL's own coalition partner continues to mount a better organized and more energetic (if not fact-based) opposition to Government policies than the actual Opposition, the United National Party. The "reasons" for the strike seem to have little to do with the substance of the proposed reforms, and more with the JVP's interest in not seeing its near-monolithic political control over the unions dissipated by the proposed "unbundling." This latest demonstration of JVP brinkmanship-and the GSL's decision to "blink"-shows more clearly than ever that this fractious junior partner retains its impressive ability to highjack the GSL agenda.

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